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DISCUSSION OF FINANCIAL ADMINISTRATION, BUDGET AND TAX RATE

THOMAS W. LAMONT, Vice-President of the Academy of Political Science:

In regard to the financial administration of the city, the first question in the minds of bankers always is, how can the credit of the city be enhanced? As bankers we have a pride in the high credit of the imperial city of New York. Its credit is always high, but how can it be enhanced? And what is the situation to-day? The comptroller has already given you some stupendous figures. Even at the risk of repeating some of them, I want to point out some of the problems that confront us in financing the city.

The comptroller has stated that this year's budget is \$199,000,000. In 1898 the budget was only \$77,000,000. In that same year the city's debt was \$341,000,000; to-day it is over \$1,000,000,000, or even if you deduct the sinking fund, it is between \$700,000,000 and \$800,000,000. The interest alone on New York city's debt is \$52,000,000, a sum largely in excess of the interest on the national debt of the United States.

How can the bankers enable the city to sell its obligations so as to secure a lower rate of interest? Of course, one of the first things is for the city to be more economical, but that is the province not of bankers, but of administrators for the city. The city also must spend more wisely what it absolutely has to spend, but that again is not the problem of bankers. There is one point already alluded to by your chairman, which does come within our purview, however, and that is the laying down of the principle adopted by the present city administration that the city must pay as it goes for its non-productive expenditures. Though past administrators of the city have had no continuity in their financial program and policies, they have had continuity in piling up an enormous debt for non-productive purposes. The principle is thoroughly vicious, but it has been followed by all previous administrations.

Mayor Mitchel some time ago stated that \$485,000,000 of the city's present debt was incurred for so-called self-sustaining improvements and \$834,000,000 for non-productive improvements. Consider what that means. It is precisely as if a railroad paid for the renewal of its ties and rails each year by issuing its bonds for such improvements, or as if an industrial company renewed its machinery with the proceeds of bonds issued on its property. There is no doubt what would become of those corporations. Yet that was the principle pursued by the city.

Despite its enormous resources, it pursued a spendthrift policy, and it remained for the present administration to adopt the new policy just at that thrilling time last September when for a moment the city's credit seemed to be almost imperiled.

It is worth while to review that situation somewhat more in detail. In September, after the outbreak of the war, this city owed abroad in England and in France \$80,000,000. Those debts had very properly been contracted there, because the city had been able to borrow at decidedly lower rates of interest in England and France than in America. But there was \$80,000,000 falling due before the first of the year, and the good name of the city of New York was involved in meeting those obligations promptly. She did not have the gold to ship, and if she had been able to buy the exchange at the rates then prevailing it would have cost her an enormous sum, something like \$15,000,000 or \$20,000,000 more,—but even so she could not have got the exchange. At that juncture the city authorities appealed not only to the business sense and co-operation, but to the patriotism of the bankers of the city of New York. It is to the credit of the banking institutions of this city when I say that only one out of the hundred and fifty or more institutions of this city that were invited to co-operate in this matter failed to do so.

That co-operation took the form of a syndicate organized at the request of the city by J. P. Morgan & Company and Kuhn, Loeb & Company, with prominent associates like the City Bank and others. The syndicate arranged that these banking institutions grouped together should agree to buy when presented \$100,000,000 of the city's obligations and of that \$100,000,000 to pay in gold the sum of \$80,000,000. That furnished the gold necessary for export to meet these obligations due on the other side. Another condition of the agreement was that the syndicate should turn back to the city any profits realized over and above 2% in the exchange operation. There would be no other profits of any kind, but if the syndicate succeeded in handling the exchange situation between America and London and Paris in such a way as to realize a profit of 2% or more, any excess was to go back to the city, and the syndicate managers were to receive nothing for their services.

What was the result of this operation in which the city's credit was so vitally involved? The result of it was on the whole to place the city's credit higher than ever before. The operation was most successful in every detail. The city issued its obligations to the extent of \$100,000,000 in the form of one-, two- and three-year notes, which were offered by the bankers at the price that they paid for them. For those notes there was an unprecedented demand from all over the city and the coun-

try. There were almost six thousand individual applications for these securities. The city's obligations were discharged and her credit abroad was placed on a level where it had never been before, because she had done what no other country at that time and no other city outside of this country was attempting to do, and that was to pay on the dot in gold. The sum of almost half a million dollars was turned back to the city, being the excess over 2% realized by the syndicate.

It was at this time, as I say, that this new and important principle was adopted of paying as we go, and that principle took the following form: It was to go into effect gradually so as not to derange the taxes too much, and even so there is question to-day whether it may not cause undue derangement. Of the amount to be raised for non-productive expenditures in the first year, 1915, 25% is to be added to the tax levy and 75% is to be defrayed by selling fifteen-year bonds. In the second year, 50% is to be raised from the tax levy and 50% from fifteen-year bonds; in the third year, 75% from the tax levy and 25% from bonds; and in the fourth year, 1918, the whole amount of non-productive expenditures is to be raised from the tax levy itself. That principle was of such importance that it seems to me worth while to read to you the resolution of the board of estimate and apportionment; for you must remember that this city administration had for some time been considering this whole question, so that when the crisis arose on account of the war the question was by no means new to them. The resolution, one of the most important ever passed by the board of estimate, reads as follows:

WHEREAS, The city of New York for the purpose of meeting its outstanding temporary loans to the amount of \$100,000,000, of which there are foreign obligations to the amount of £13,310,000 and 61,500,000 francs, incurred through the issue of corporate stock notes and revenue notes heretofore issued under and pursuant to provisions of section 189 and 187 of the Greater New York charter, and payable between this date and January 1st next;

AND WHEREAS, The extraordinary situation prevailing in the financial market, due to the European War, makes it imperative to provide for the payment in gold or purchase of exchange or other arrangement for settlement at this time for the full amount of the foreign loan;

AND WHEREAS, The city expects from time to time to become a further borrower in the market for the purpose of financing itself through ensuing years as heretofore by the issue of revenue bonds and revenue notes in anticipation of taxes and by the issue of corporate stock notes and corporate stock for permanent improvements;

AND WHEREAS, At the present moment a world condition prevails in financial markets making it exceptionally and extraordinarily difficult to secure loans in large sums such as regularly required by the city to provide funds for the discharge of its business in anticipation of collection of taxes and issue of corporate stock, and for this reason it becomes desirable that the city of New York should maintain its credit unimpaired in this period of financial stress and to that end to conform its practises to the most conservative methods of financial management;

AND WHEREAS, The members of this board have contemplated the necessity of adopting a new policy with regard to the financing of permanent public improvements looking to the payment of the expense thereof in increasing proportions out of the budget of the city rather than through the issue of long term bonds, and have already adopted such practise in part, which intent was further evidenced by the statement contained in the communication addressed by the mayor to this board in transmittal of the executive budget on August the 14th last;

AND WHEREAS, The present is an appropriate time for the further extension of this policy; now therefore be it

Resolved, That the board of estimate and apportionment hereby declares that it will pursue the following plan in financing public improvements:

(1) The cost of all improvements of the revenue-producing class, such as rapid transit, docks, railway and water terminals and water supply, shall be defrayed by the issue of fifty-year corporate stock as heretofore.

(2) The cost of all permanent improvements, other than those of the revenue-producing class, hereafter authorized by this board, shall be financed as follows:

(a) Those authorized subsequent to the passage of this resolution and during the year 1915 shall be paid for, three-quarters by the issue of fifteen-year corporate stock. The corporate stock so issued shall mature either in not more than fifteen years, amortized as provided by law, or in equal annual instalments, during a period of not more than fifteen years. The remaining one-quarter of the cost of such improvements shall be paid through the medium of a one-year bond payable from the next annual tax budget.

(b) Those authorized in the year 1916 shall be paid for, one-half by the issue of corporate stock maturing as aforesaid. The remaining one-half of the cost of such improvements shall be paid through the medium of a one-year bond payable from the next annual tax budget.

(c) Those authorized in the year 1917 shall be paid for, one-quarter

by the issue of corporate stock as aforesaid. The remaining three-quarters of the cost of such improvements shall be paid through the medium of a one-year bond payable from the next annual tax budget.

(d) The foregoing statements of policy contemplate the financing of improvements authorized during the year 1918 and subsequent years through the inclusion of the entire cost thereof in the annual budget of the city, excepting the revenue-producing improvements hereinbefore mentioned.

(3) In so far as corporate stock notes issued by the city of New York as a part of the proposed loan of \$100,000,000 shall be retired by issues of corporate stock, the corporate stock so issued shall mature as provided in clauses (a), (b) and (c) of paragraph 2 of these resolutions.

(4) The cost of public works already authorized, whether under contract or not, but in respect of which new bonds are to be issued, is to be financed in the same manner as above provided, with the exception of the cost of revenue-producing improvements hereinbefore mentioned.

Nothing herein contained shall be deemed to affect either corporate stock or assessment bonds issued to replenish the street improvement fund or the fund for street and park openings.

That policy means that all the world of investors will understand the determination of this city to pay as it goes. It is not going to leave future generations to pay the cost of things enjoyed to-day that produce no revenue. In the long run the adoption of that policy will greatly enhance the value of the city's obligations.

As a last word, let me say that the problem is not yet finished. It is a problem that requires the co-operation of citizens even more than bankers, because the adoption of this remarkable policy by the present administration inevitably means an increase in the tax rate on the citizens of the city. It was bound to be an unpopular move politically. It was a daring, courageous move, and a wise one as well, but it was a move that demands the support of the citizens; for the increase in the tax rate, though a temporary hardship, is a severe one. Nevertheless this policy in the long run will raise the credit of the city of New York above its already high place, and should effect material savings in the future financing of the city.

EDWIN R. A. SELIGMAN, McVickar Professor of Political Economy, Columbia University:

The subject assigned to me is a perennially old, and yet in this particular juncture, a particularly new one, the selection of new sources of revenue.

Why do we need new sources of revenue? If we are to believe our watchdog of the treasury, whom we are very fortunate to have with us at this time, we have no need of new revenue, but we can cut our coat according to the cloth. If, however, we are to believe the last speaker, there will, notwithstanding all possible economies, still be the prospect of facing the necessity of new revenues. What I want to emphasize is this fact, that we are going through a crisis in the history of this city, which ought to be met by exceptional measures, and the choice is one between cutting to the bone, and the less heroic but perhaps equally unpopular method of submitting for the time being to fresh burdens.

Why is it a crisis? Ordinarily we have not had this trouble because, although the expenditures of this city, as of all cities, have grown, it has been possible to meet them by the increase in the revenues, by the ordinary expansion in the basis from which we derive our income. Three or four things, however, have happened in the last year or two which have brought this crisis upon us. What are these things? In the first place, we are building a whole new system of rapid transit. That expenditure will be over in a few years and the earnings will begin to come in. In the meantime, we have to spend money, although we cover the outlay not only by issuing bonds but by borrowing the interest. Within a year or two, however, we shall have to put on the tax levy the interest on these new bonds, until the time when the rapid transit system earns this interest. That will take a few years. In the second place, as the preceding speaker has pointed out, we have now adopted the policy of "pay as you go" for the non-productive capital outlay, or the so-called non-self-supporting improvements; and as a consequence we shall have to put upon our tax levy every year an increasing amount to pay for these permanent expenditures. In the third place, ordinarily, as I say, we might depend upon the increase in the assessments of real estate, which in normal times would be several hundred million dollars a year, and which would give us an ample margin for the increase in ordinary expenditures. For the last year or two, however, as you know, we have been in the depths of a great depression, and this depression will probably continue for a short time at least. We are therefore caught, as you see, both coming and going. We have more to spend and we have a smaller basis upon which to build, a smaller source from which to draw the revenue. And finally, to cap the climax, we are now confronted after several years of quiescence with the outlook of a direct tax for state purposes which this year we are told will amount to at least eighteen or twenty millions of dollars, and of which the city will have to pay its

large share of 70%. Until the state, therefore, reforms its own system of finance, a point carefully to be considered and not easily to be accomplished, during this year and during the next few years it is probable that we shall have to look forward to these increased expenses on the one hand, lack of increased revenue on the other.

That, I say, is the crisis that confronts us, and the problem now arises, how shall we meet it? The comptroller has told you how he would meet it. He has done his duty. As the watchdog of the treasury, it is his duty to keep before us now and at all times the sovereign need of economy. He has done as much as anyone in the present admirable administration—I was going to say almost more than any one else—to point out how in his own department, and in all the other departments over which he has indirect control, this admirable principle of economy can be achieved. He knows whereof he speaks; he practises what he preaches. And yet, I have a little doubt as to whether, when the matter is put before the citizenry of New York, they will elect, when they know what it really means, to follow the comptroller's plan. For, after all, the question is not so much one of economy as of choice between economy and parsimony. We all agree that we must have economy, and the city administration has shown that it follows this plan. For, as you know, in the budget for the coming year, we are actually spending for ordinary city purposes less than the year before. So far as the ordinary expenses of the city are concerned, which ought normally to grow with the growth of population, I have no doubt that the comptroller and his associates will be able to keep the budget for the next year, notwithstanding the increase of population, down considerably below the present figures. That is sound economy, and it ought assuredly to be practised. But when you come to the point of meeting the 25%, soon to be the 50, 75, or 100% of the non-productive expenditures for capital purposes—and we have been spending on the average from twenty-five to twenty-eight million dollars a year for that purpose alone, new school houses, new court houses and things of that kind,—when you add to that the increased expenses that are coming along for rapid transit; and when you add still further our proportion of the immense direct state tax; when you have done all that, you will realize that we are confronting a situation where we shall need not indeed next year, but the following year or within three or four years an additional revenue of between \$30,000,000 and \$40,000,000, to put it conservatively. We shall then need from thirty to forty millions of dollars more revenue or we have got to lop off from our present expenditures thirty to forty million dollars of expenditures.

The comptroller has told you that so far as the health department is concerned, he would not be in favor of lopping off anything, because we are getting our money's worth and more than our money's worth. I imagine that for streets and the taking care of streets, there is not an immense amount to be saved, although I have no doubt that a few millions could well be cut out by careful economy. We must then save on schools. We are therefore confronted by a situation where we shall have completely to change our whole system of education so as to save not a million or two, but ten or fifteen millions out of the thirty or forty millions we are spending for that purpose. That means that we shall have to give up all our colleges, our high schools, our vocational schools and a great part of the recent additions that have been made to our educational plant. For even though you abandon pretty much all of what might be called the fads and frills in our educational scheme, the comptroller himself has told us that they amount to comparatively little. We must remember that it is not a question of economizing half a million here or a million there, in the ordinary branches of the administration. We are all in favor of that, of course; nay, we must insist upon it. But it is a question of choosing whether you are going to cut to the bone in the educational and all the other social services of the city or whether you are going to raise more revenue.

My own feeling is that if we had come to the point where no more revenue could be raised without great hardship to the community, then, serious as it would be, we should nevertheless be compelled to cut to the bone. Why do we spend so much money in modern times? The growth of modern expenditure is due to the growth of modern democracy. It is because we realize that on the whole, the under dog ought to have as much of a chance as the rest of us to derive some benefit from the blessings of civilization, and to have an opportunity at all events to develop himself, that the community is beginning to give him a chance, through education, sanitation, recreation and the like. We find this growth of expenditures all over the world, in Asia, in Africa and in Europe; in Great Britain, in France and Germany as in the United States. If then we remember that the normal growth of expenditures is simply the reverse of the shield of progressive democracy, to say as we should have to say that we must cut to the bone, in order to save these ten, twenty or thirty millions of dollars; and to say that we must give up all those things which have put New York—I won't say in the front rank, but among the progressive cities of the world,—to confess this is to incur the danger of taking a step backward which will react upon the commerce and the industry of this city and which will ultimately injure its prosperity.

Yet even this I would face if it has to be, if we had reached our limit. But what is the fact?

The fact is that we are raising all our revenue in the city practically from one source, real estate, and the rate on real estate at the present time is indeed such that we cannot well increase it. But what should be done is not to compare expenditures with population or even expenditures with real estate; we should compare expenditures with social income. The reason why the expenditures of the city have increased so enormously is because of the growth in the social income of the city, the income of the people that compose the city. Do you know that of the income tax raised in the United States last year, between 45% and 47% of the tax paid by individuals on personal income was paid in this city? Think of it, almost one-half of the entire taxable incomes in the United States right here; and yet they tell us that we cannot afford to keep up the social service of the city and the education in which we believe. The trouble is not with our expenditures, although I am the greatest possible advocate of economy; the trouble is that we have an absurd and inadequate system of revenue. The people who pay the taxes in this city are not the poor men directly nor the rich men, but the great middle class. What we need is a system of taxation, a system of raising revenues both local and state which will tap the social income in such a way as to make all classes of the community pay their proper share.

What did Lloyd George do when he was confronted with the necessity of raising fifty millions more for social insurance? He did not say, "We have taxed real estate as much as we can, and therefore we have got to cut to the bone in our expenditures." No, he said, "There is a social income in this community and I shall proceed to find it." And he found it in ways that have not been spoken of in this country at all. What do they do in Germany? What do they do in France? What do they do in every country in the world except in the state and city of New York when this proposition is before them? The mayor's tax committee, of which I have the honor to be a member, is wrestling with one side of that problem, and the mayor is not yet ready to make our conclusions public. I would say, however, that it is not simply a question of a mayor's tax committee, but of a governor's tax committee. We in the city of New York are as much interested in having a reformation of the state revenues, of which we pay 70%, as in having a reformation of the city revenues. Until we can get together and consider dispassionately this problem—is there sufficient social income in the state and the imperial city of New York to make possible a continuation of

the program of sane and sensible social service upon which we have entered?—until we can get an answer to that problem we can make little headway. But when, as I hope, we shall have solved this problem, we shall then have no difficulty in making a choice between the two alternatives: shall we cut to the bone and abandon so much of what we have already attained? or shall we say, “Yes, let us have economy, let us have expenditures economically administered; but let us have enough revenue out of the social income to make those expenditures possible.”

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